

## **IN SEARCH OF REASON: A CASE STUDY OF ILLINOIS RATE REGULATION**

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### **Introduction**

The basic questions addressed in this paper are: When are tow companies allowed to haul away a car without the owners consent and how much do they charge? The answer is not common knowledge. The general public is often unaware of the rules governing the removal of vehicles that are unlawfully parked on business property. Regulations constrain behavior in the private sector and impact activities, so citizens need information to hold government accountable and scholars need information to explain government action.

State regulation of a specific industry influences other regulatory institutions and other industries.<sup>1</sup> Since

states other than Illinois have little or no regulation of the towing industry, Illinois is unique and serves as a model for other state and local government agencies. This case study of Illinois rate-regulation broadens the understanding of the regulatory policy-making process and contributes to theory by examining a unique regulatory policy—rate-setting for towing of vehicles from private property.

The Illinois Vehicle Code<sup>2</sup> defines a commercial vehicle relocater or relocater as “any person or entity engaged in the business of removing trespassing vehicles from private property by means of towing or otherwise, and thereafter relocating and storing such vehicles.” In Illinois, private property owners have the right to have unauthorized vehicles removed from their property. County ordinances usually regulate this activity, but the Illinois Commercial Relocation of

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<sup>1</sup> Brian J. Gerber and Paul Teske, “Regulatory Policymaking in the American States: A Review of Theories and Evidence.” *Political Research Quarterly* Vol. 53, No 4, (December 2000): 849-886.

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<sup>2</sup> 625ILCS 5/18a-1101 et seq.

Trespassing Vehicles Law<sup>3</sup> allows any county to seek state-level regulation. The Illinois Commerce Commission (ILCC or the commission) regulates relocators for four counties in northeastern Illinois: Cook, DuPage, Kane and Will County.<sup>4</sup>

The public, commercial property owners and relocators in the aforementioned counties in northeastern Illinois are in favor of regulatory oversight. Business owners in Chicago complain that they can not afford to have the limited number of parking spaces in their lots used by people who are doing business elsewhere.<sup>5</sup> The legislature delegated to the commission the power to supervise and regulate the commercial removal of trespassing vehicles from private property and the subsequent relocation and storage of such vehicles in such a manner as to fairly distribute rights and responsibilities among vehicle owners, private property

owners and commercial vehicle relocators.<sup>6</sup>

Setting reasonable rates is listed as one of the duties and powers of the ILCC, which has the duty to set reasonable rates for storage for periods in excess of 24 hours from the time the vehicle was removed. Towers may not impose storage charges for the first 24 hours if the vehicle is claimed, proper identification is provided, and payment is received. The law also prohibits the relocation-towing rate from exceeding the mean average of the five highest rates for police tows. In addition, signs warning that unauthorized vehicles will be towed must be posted on the private property, and towing fees charged cannot exceed the posted amount. Regulation has monetary implications for others, and the ILCC is responsible for setting a rate that maximizes the welfare of the parties involved. Moreover, ILCC has an obligation to treat all parties fairly, to prevent discrimination and disproportionate effects.

State regulation establishes uniform rates across counties and municipalities, assures owners' access

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<sup>3</sup> Id.

<sup>4</sup> Winnegabo County may soon be added. They passed a resolution Jul. 11, 2002, accepting state regulation of towing. At the time of this writing, that resolution was awaiting commission approval.

<sup>5</sup> Don Babwin, "Booting Errant Cars Catching On," Associated Press, May 13, 2002. [http://www.softcom.net/webnews/wed/ad/Abooting-cars.RruX\\_CyD.html](http://www.softcom.net/webnews/wed/ad/Abooting-cars.RruX_CyD.html).

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<sup>6</sup> 625ILCS 5/18a-1101 et seq.

to vehicles, and protects both vehicle and private property owners' rights. State regulations require relocation towers to adhere to rules and regulations that provide for uniform standards of service.<sup>7</sup> Thus, state regulations balance the rights of the private property owner, the vehicle owner and the relocation towing company. Prior to state regulation, rates and other conditions and standards were inconsistent, often leaving the vehicle owners at the mercy of a towing company. Under state regulations, the relocation tower is barred from changing rates, must provide reasonable and professional services—including complaint resolution, and is subject to audit and investigation by the regulatory authority without notice.

As reported in the ILCC's *2000 Annual Report Analysis for Relocation Towers*,<sup>8</sup> 53 companies towed 108,305 trespassing vehicles. Nineteen of these

relocators filed petitions for a rate increase from \$105 per tow to \$125 per tow and a vehicle storage increase. Previously the ILCC denied a petition filed on behalf of several relocation-towing companies to increase storage charges due to the inability of the towers to come together and present this information. Some companies did not have the analytical ability; others were not comfortable with disclosing their financial condition to competitors. Therefore, the commissioners decided staff would gather financial and operational data from the entire industry for the petitioners.

Staff was in a unique position not normally seen in rate increase cases. Normally, the towers bear the burden of proof and are responsible for presenting their case. Petitioners agreed to submit answers to a survey of their business finances. They reviewed and accepted the information gathered by staff that was used to determine the adequacy of rates. Consumers or the general public did not participate in the process, except to the extent that the commission represented the consumers and businesses. If the petitioners for the rate increase accounted for 85% or

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<sup>7</sup> These standards include no-hassle vehicle retrieval capabilities, statewide set rates and documentation of all charges, as well as contracts and sign posting of private lots.

<sup>8</sup> Illinois Commerce Commission, *2000 Annual Report Analysis for Relocation Towers*, Working Paper 2000-01 (February 2002).  
<http://www.icc.state.il.us/tow/docs/020227tow.pdf>

more of the total tows conducted according to the survey, then any rate increase would apply to all of the relocators. If the participants in the petition accounted for less than 85% of the tows, any rate increase would apply only to those relocators that participated in the petition for the rate request.

The purpose of this study was to describe the process used by the ILCC to gather information and set rates for towing vehicles from private property and subsequently storing the relocated vehicle. In order to determine whether the requested rate-increase was reasonable, the author asked the question: What combination of factors are considered in determining towing and storage rates for tows of unauthorized vehicles from private property? The specific research objectives of the study were to examine the factors that influence decision-making in rate regulation and to understand the rate setting process. The next section reviews the policy analysis literature and cases that demonstrated the importance of this case study and suggested the appropriate research methodology.

## **Decision Making**

The theoretical basis for decision-making has emphasized a rational-economic approach to policy analysis, but the process has evolved over time.<sup>9</sup> Traditional policy analysis such as cost-benefit analysis assumes that the decision-maker knows all the options and that all social, political and economic values can be defined. Using a rational approach, an agency relies on the technical expertise of staff to determine the benefits and costs of regulatory decisions and estimate the impact in dollars. Researchers now recognize that cost-benefit analysis depends on the values of those involved and is not totally objective and neutral. The process of changing public policy involves imperfect information, debated methods and ambiguous issues.

Economic interest is still a primary ingredient in determining regulatory policy. The legal role of the ILCC in this rate appeal is to ensure just and reasonable rates. Thus, an important part of determining rates is to examine the costs and financial

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<sup>9</sup> Beryl A. Radin, *Beyond Machiavelli: Policy Analysis Comes of Age*, (Washington, D.C.: Georgetown University Press, 2000).

condition of relocators and the economic environment in which they operate within the four regulated counties in Illinois.

One reason for regulation of the industry is to contain competition to assure operation of more than a few companies. Volotta found that the number of truck carriers had continually declined despite more than 5000 applications per year for new certificates.<sup>10</sup> Such a decline when the volume of freight was growing led to fewer and larger companies. Volotta reported that 2% of the companies accounted for half of the revenue and that seven years later 3.5% of the companies earned 66% of the revenue.<sup>11</sup> The *2000 Annual Report Analysis of Relocation Towers*<sup>12</sup> shows that 10 (of 53) licensed relocation-towing companies account for 93.9% of the industry's revenue. Thus, the majority of tows are made by a minority

of the relocators in the industry, making an examination of the factors involved in rate setting essential. The role of the regulator is to judiciously examine petitions for rate adjustment and to document recommendations for the docket records.

The decision to reject the proposed rate increase for relocation towing and storage or to grant an increase is complex. Timney<sup>13</sup> argues that public policy decisions should be based solely on empirical evidence, adding that public policy making is rarely completely rational or based on scientific data. In fact, many times there is political pressure against using solely definitive studies for policy decisions. The underlying questions are: To what degree should policy be based solely on empirical science? How can a political process of deliberation, discourse, compromise, and power fit into the rational model of decision making? Is it really best that the process of policy change is solely rational?

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<sup>10</sup> A. Volotta, *The Impact of Federal Entry Controls on Motor Carrier Operations*. (Pennsylvania State University, Center for Research of the College of Business Administration, 1967).

<sup>11</sup> Id.

<sup>12</sup> Illinois Commerce Commission, *2000 Annual Report Analysis for Relocation Towers*, Working Paper 2000-01 (February 2002).  
<http://www.icc.state.il.us/tow/docs/020227tow.pdf>

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<sup>13</sup> M. Timney, "Must Policy Making Wait Until All the Data Are In? An Empirical Look at Environmental Justice," *Public Administration Review* Vol. 62, No. 4, (July/August 2002): 506-507.

## **Methodology**

Research was conducted through an examination of documents and participation in an analysis of financial information reported by relocation towing companies. Qualitative methods were used to add depth of detail about the rate setting process in Illinois. Exploratory investigations in a real life context are ideal for case study analysis.<sup>14</sup> The researcher learns from individual experience, from the context, issues, structure, policies, procedures and functions of those involved inside and outside the organization.

The focus of the study was to develop materials for a hearing within the ILCC to recommend rates for towing and storing of vehicles removed from private property. The narrative is a combined participant's view and the researcher's unconsciously biased knowledge. The study is intended as a model for future rate setting within the ILCC and for other regulators. The case was singled out to generalize to theoretical literature related to developing policies for rate regulation

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<sup>14</sup> Robert K. Yin, *Case Study Research Design and Methods*. (Thousand Oaks, CA: Sage Publications, 1994).

and to produce further research questions.

Because of the potential for misinterpretation of results, steps were taken to increase the reliability of the research. Towing companies make judgments about what to report and how revenues and expenses are categorized. Therefore, whenever possible information was compared to prior year information. Where large variances existed, companies were contacted for an explanation. ILCC staff made judgments along the way in interpreting the information reported. Asking for further explanation of some items for some companies and not of other items or for other companies could make a difference in the analysis. Errors might also be made in the entry of data into electronic spreadsheets; explanations might be misunderstood, and categories or instructions might be misinterpreted. To decrease the likelihood of error, ILCC staff verified notes taken during meetings and reviewed a draft of this report for content accuracy.

Prior to the author's participation, the ILCC invited licensed relocation towing companies in the four regulated

counties and their accountants to participate in a workshop. The purpose of the workshop was to discuss the availability of certain kinds of information that would demonstrate the need for fee adjustment.

Towing companies were sent a list of questions for discussion at a three-hour workshop. Based on workshop discussions, ILCC sent a follow-up questionnaire to those who attended or expressed intent to petition for an increase in towing and storage rates. The questionnaire requested detailed information about operating expenses and unclaimed vehicles in addition to financial and operational information that mirrored the towers' annual reports. Responses to the questionnaire were entered into a spreadsheet to examine the factors that were considered in the rate-setting process.

The 19 relocators that responded to the follow-up questionnaire became the sample for this study. Since this group of licensed relocators accounted for 85%, or more, of the regulated tows, the outcome of the rate appeal for these 19 companies applied to all of the licensed relocation towing companies in

Illinois. One of the key characteristics of the businesses in the sample was that relocation towing tended to be only part of the company's total business. Only 3 of the 19 relocation-towing companies in the sample offered no other services. Seventeen companies were corporations and two were sole proprietorships. They were all small operations, with the number of employees ranging from 3 to 35; only 6 of the 19 petitioners had more than 20 employees. Participating relocators were also small in financial terms. Industry standards<sup>15</sup> categorize towing companies on a six-point continuum of operating revenue ranging from less than \$500 thousand to \$250 million. Of the 53 relocation-towing companies in Illinois, 45 reported less than \$500 thousand in operating revenue, and the highest total company revenue reported for the sample was \$2.5 million, so the industry standards for small companies were used for comparison.

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<sup>15</sup> *Robert Morris & Associates Annual Statement Studies 1999-2000*. (Philadelphia, PA: RMA, 1999).

## Staff Analysis

Since the law prohibits the relocation-towing rate from exceeding the mean average of the five highest rates for police tows, staff conducted a telephone survey of police departments in 222 communities in the four-county area to inquire into the rates charged for a non-accident vehicle tow. Many police departments and municipalities have a list of towing companies that they alternately use to perform police and accident tows. Towing companies get on the list by following either city or police guidelines. The ILCC does not regulate towing practices other than removal of vehicles from private property.

Subjective decisions were made for cohesiveness of the study. In many cases the police department directed staff to call the towing companies for pricing information. When cities used multiple companies for towing, only one company was contacted, assuming the rate charged by that company would not vary significantly from a rate charged by other companies in the same locality. Rates charged for a non-accident vehicle tow sometimes varied by weight

or type of vehicle towed or type of equipment used. Some areas charged extra fees based on the number of miles towed; some of the respondents even questioned what constituted a non-accident vehicle. Although the methods of charging for services were not identical, the study remained focused on finding the five highest rates for towing a non-accident vehicle.

The next step was an analysis of financial information of licensed relocators in Illinois. A spreadsheet was designed that compared annual report information to questionnaire data for the companies involved in the rate case. The purpose of charting the data was to search for meaning within cases and across participants. Patterns and connections were analyzed and meetings were convened to discuss progress and help administrators understand the issues. Analysis was inductive but was guided by Generally Accepted Accounting Principles (GAAP) and practitioner's historical knowledge of rate regulation in the transportation industry.

Multiple financial ratios were used to analyze the health or strength of the towing companies. According to



Lewis,<sup>16</sup> earnings from operations are the best evidence available for predicting a company's future operating revenues. The measure indicates how successful the primary business activities of the company have been. The operating ratio (total expense divided by total revenue) as a measure of profitability indicates the ability of a company to produce more revenue than expenses. A lower operating ratio reflects efficiencies in operations with a lower percentage of operating expenses to operating revenues. However, rate increases based solely on profitability, or lack of it, may actually reward companies for not controlling costs. Costs for each company vary, so set rates can actually cause discriminatory pricing. Adding other financial ratios that measure liquidity and solvency to the operating ratio and other measures of profitability give a fuller picture of the viability of a firm.

Measures of financial performance were calculated from annual reports of licensed relocation towers on file at the ILCC and from balance sheet information requested

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<sup>16</sup> D.S. Lewis, "Analyzing Financial Statements," *Internal Auditing* Vol.16, No. 5, (September/October 2001): 44-48.

from the companies participating in the rate case. Financial ratios measuring liquidity, solvency, profitability and operating efficiency were compared to averages published by Dun & Bradstreet<sup>17</sup> for companies grouped by size using Standard Industry Classification (SIC) 7549, Automotive Services, Except Repair and Carwashes. Analysis involved looking at the range of the ratios as well as the size and direction of differences between the industry averages and the average for petitioners. Towing vehicles from private property is somewhat different from Automotive Services in SIC 7549 and from towing in general. Thus, comparisons in this study indicate trends rather than absolutes. For example, an average operating ratio for the industry does not mean that every company can expect to earn a set amount on every dollar.

Ratios are only as good as the data on which they are based. Before data was included in the final analysis, the researcher conducted tests of reasonableness on the information and contacted business owners to discuss

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<sup>17</sup> *Dun & Bradstreet Industry Norms and Key Business Ratios*. (Murray Hill, N.J., Dun & Bradstreet, Inc. 2001).

questionable items before it was used in the final analysis. Letters were sent notifying the towing companies of errors and omissions in the information they submitted; those that did not revise their information or explain the variations were telephoned to assure the quality of data.

Staff compared the impact of three different economic indicators on rates and reviewed supply and demand for relocation towing in the market place. Different indicators were used because not all the factors in each index are applicable to towing. The Producer Price Index (PPI) shows the cost that a producer incurs in manufacturing their product or offering their services. It does not include cost of living items such as food and shelter expenses, but it does include the cost of equipment, fuel and salary increases. The Consumer Price Index (CPI) measures the increased cost for food, gas, clothes or other items purchased by consumers. Examples of consumer items purchased by towing companies are paper, supplies and fuel. Inflation and the Cost of Living Adjustment (COLA) were also applied to prior rates. The four

projections were averaged to help in determining the amount of any increase.

Meetings and phone conferences added another dimension to the process and led to an analysis of the number of relocators entering the market as well as the number of contracts that relocators have with private businesses. Because only licensed relocators can remove vehicles from private property and the license is voluntary, rates need to attract sufficient towing companies into the market to meet the demand of private property owners.

In a hearing before an administrative law judge, staff testimony and research exhibits were introduced as evidence in the case. The burden of proof was to establish with financial and operational documentation that the current rates were not adequate to meet expenses. Because the information gathered and presented by staff was solicited from a survey of the relocators themselves, the questioning of the staff and exhibits introduced were limited to interpretation of the data as it related to the level of increase needed. The relocators also had the opportunity to offer direct testimony. All witnesses

were subject to cross-examination and rebuttal.

## **Discussion of Findings**

The administrative law judge recommended an order approving the requested towing and storage rate increase. By several standards, current rates were inadequate to allow a reasonable operating ratio or positive net worth to relocators. This discussion presents the following research findings that were accepted at the hearing as the foundation for the final order: results of the telephone survey, financial analysis of annual reports and questionnaire data, projections of future revenues and market entry conditions.

### Comparison of Rates

The researcher telephoned police departments in 222 communities and counties where relocators offer services, and rates were recorded in a spreadsheet. People in various positions within the police department, provided the rate information. Sometimes it was necessary to talk with several people or call towing companies directly to obtain the information. Often

the person was not sure whether there was a different rate for non-accident tows, and some communities had different rates based on the type of equipment needed. For example, the price was higher when a flatbed was required. The lowest price was recorded in order to obtain the most conservative estimate of rates charged. Some people who were contacted consulted local ordinances to obtain the information; others referred to contracts or provided the telephone numbers of local towing companies. The mean towing rate for the five highest police tow rates was \$133, which was greater than the requested \$125. The mean storage rate for the five highest police tows was \$37 per day, which was greater than the requested \$25 rate after the first 24 hours.

### *Financial Analysis*

Having established that the requested increase for relocation towing and storage of vehicles met the requirement of the law, the financial information of licensed relocators in Illinois was analyzed to create a picture of the industry's financial performance. This phase of the research looked at

revenues and expenses reported in the annual reports of relocators, both in total and for relocation operations alone, as well as analysis of the responses to a questionnaire that included balance sheet information.

Based on operating ratios, the 19 participating relocators were not typical of the population as a whole, since they had higher operating ratios; thus, an increase based on these 19 relocators will benefit the whole industry to an even greater extent. For all 53 licensed relocation towing companies, the average operating ratio for relocation business was 99.9% and the overall company average for all business operations was 96.47%. However, the average operating ratio for relocation for the 19 towers who participated in the hearing was 101.63% and the overall company average was 101.83%, indicating that expenses exceed 100% of the revenue.

Looking at relocation towing, storage and miscellaneous revenue and expense separately, the picture became clearer. Relocation towing revenues generated 91% of total relocation revenue and 75% of total relocation expense, so towing vehicles from

private property appears profitable.

Storage expense for relocated vehicles was \$1,960,804, which represented about 17% of the expenses of the relocation business. Revenue for storage of relocated vehicles was \$578,391, which was approximately 5% of total relocation revenue, creating a deficit for relocation storage of \$1.3 million. The average cost for storage of a relocated vehicle was \$157 and the average revenue was \$46.

Vertical percentage analysis of the balance sheets for 12 of the participating relocators is summarized in Table 1. Current assets are 45.4% of total assets for the industry as a whole compared to 24.2% for the relocators in this study.<sup>18</sup> Non-current assets for the industry are 54.6% of total assets and 75.8% for the relocators in this study. Compared to national averages, the petitioners have a smaller percentage of cash available and a larger portion invested in fixed assets, making it more difficult to meet financial obligations of

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<sup>18</sup> Current assets include cash, marketable securities, accounts receivable, inventories or other assets that can be liquidated within a year, if necessary.

**TABLE 1**  
**BALANCE SHEET VERTICAL**  
**PERCENTAGE ANALYSIS**

<b>Classification</b>	<b>Industry Average</b>	<b>12 Illinois Relocators</b>
Current Assets	45.4%	24.2%
Non-Current Assets	54.6%	75.8%
Total Assets	100.0%	100.0%
Current Liabilities	42.9%	27.0%
Long-term Liabilities	38.8%	25.5%
Net Worth	18.3%	47.4%
Total Liabilities & Net Worth	100.0%	100.0%

Source: Author's construct

operations. Current liabilities for the industry are 42.9% of total liabilities and 27% for the petitioners, leaving 39.1% of total liabilities as long-term liabilities for the industry as a whole compared to 73% for Illinois relocators. The regulated companies may have little debt, but equipment may be old or require repair. The net worth for the group who submitted balance sheets is greater than the industry average. As a group the relocators look financially stable, but 5 of the 12 have a negative net worth. In aggregate analysis, the healthy companies hide the losses of

struggling companies. The participating relocators' financial performance with respect to liquidity, solvency and profitability, is summarized in Table 2.

In comparison to industry standards, the participating towing companies are below average. The current ratio (current assets/current liabilities) and the acid test ratio (cash plus accounts receivable/current liabilities) measure liquidity indicating how many times a company's assets cover their debt. All but one reporting company has an acid ratio less than the industry average and current assets

**TABLE 2**  
**FINANCIAL RATIOS FOR INDUSTRY AND PETITIONERS**

Ratio Liquidity/Solvency:	Industry Average	Reporting Petitioners		Overview
		Average	Range	
Liquidity/Solvency				
Current Ratio	2.6 times	1.2	-.2 to 5.0 times	11 of 12 less than the industry average of 2.6
Acid Test Ratio	1.5 times	0.7	-.2 to 2.2 times	10 of 12 less than the industry average of 1.5
Debt Ratio	57.9%	-133.6%	-994 to1283.8%	7 of 12 negative
Profitability:				
Return on Assets	11.1%	18.6%	-106.8 to 317.1%	10 of 12 greater than the industry average
Return on Net Worth	43.9%	-7.1%	-104.9 to 85.2%	11 of 12 less than the industry average
Efficiency:				
Operating Ratio	99.2%	101.44%	87.86 to 109.77%	5 of 12 greater than the industry average

Source: Author's construct

plus accounts receivable that do not cover current or short-term debt. Using the debt ratio (total liabilities/total assets) as a measure of solvency, percentages higher than the industry average indicate excessive debt. Seven of 12 reporting companies have a negative net worth so the debt ratio is negative.

#### *Comments on the Financial Analysis*

Despite the effort to obtain good information, problems crept into the analysis. For example, balance sheet data was not classified into long term and short term. The current ratio and the quick ratio involved making assumptions about what was current for some companies. Since GAAP accounting is required, calculations of

ratios assumed that all financial reports were on an accrual basis. In reality, however, some of the profit and loss statements may have been reported on a cash basis, tainting comparison across companies. The analysis was also limited because there was only one year of information and no separate reporting of unusual events.

Although relocation towing requires some additional expense, general towing operations share the storage facilities, equipment and administrative overhead. At a meeting, commission staff pointed out that for the majority of licensed relocators relocation towing is a secondary operation that absorbs excess capacity and down time. Thus, many of the relocation expenditures are already sunk costs expended for other operating concerns. Allocation of shared expenses between relocation towing and other business operations was explained many times to the towing companies submitting information.

### **Balancing Interests**

In a meeting regarding the financial analysis of relocators, ILCC administrators brainstormed the

perspectives of the commercial vehicle relocators, the private property owner and the vehicle owners. Private property owners would be satisfied with an increase because it would deter violators. However, if the cost is too high, the vehicle may be abandoned and never picked up. If the rate is too low and does not cover the costs of the towing companies, towing companies may try to contain costs at first, but eventually they may not perform relocation tows and may search for other means of producing revenue. On the other hand, if the increased tow rate provides an excessive profit margin for towing, the relocators may have little or no incentive to improve performance by responding to customer complaints, improving response time or safety records. An increase would improve cash flow and possibly subsidize other operations such as the towing and storage of unclaimed vehicles. As a result of the meeting, research turned to exploring the issue of unclaimed or abandoned vehicles as well as studying the market for relocation towing companies.

According to the Chief of ILCC Police, property owners often call a

relocator to remove junk vehicles that are never claimed; the relocator then must process and dispose of the vehicle. Tow-truck operators must remove the abandoned vehicle and then are stuck with those vehicles for months at a time. Analysis revealed that 6,686 vehicles—an estimated 59% of the vehicles that were stored as a result of a relocation tow—were reported as unclaimed for the 19 relocators in the rate case. Private property owners' lots are used as dumping grounds for junk vehicles, and the towing companies incur substantial costs in handling and processing their disposal.

### Choosing an Increase

Financial analysis documented that some type of increase was needed for relocation towing and storage rates. The next step was to consider the economic impact of rate changes on future revenues and expenses. Rates were projected using three different economic indexes. Assuming that the current rates set by the commission in 1988 for storage and 1996 for towing were reasonable, the researcher applied various economic indexes and projected the average for towing and storage of

\$122 and \$22, respectively. Table 3 shows the calculations for each index separately as well as the average. Regulators also projected revenue and operating ratios. If a rate of \$125 per tow and \$25 per day for storage were granted, the estimated additional revenue for relocation towers was over two million dollars based on the same number of relocation tows reported for the most recent year. The operating ratio was projected to be 84.9% for relocation towing and 90% for the company overall. The petitioners objected to the projected figures, stating that the data submitted was already a year old and understated the operating ratio due to significant increases in the cost of fuel and insurance. They did not, however, offer any evidence to document their statements.

When the market for relocation towers was considered, ILCC records showed that the entry of new companies was balanced by approximately the same number of companies exiting the market each year. From 1979 through Oct. 31, 2001, 165 relocators obtained authority from the ILCC. Sixty-three were licensed at the time of the hearing and 38 of these have entered the



**TABLE 3**  
**RATE PROJECTIONS BASED ON ECONOMIC INDICATORS**

	PPI	CPI	Inflation	COLA	Average
Towing Rate	\$124	\$127	\$117	\$119	\$122
Storage Rate	\$ 19	\$ 26	\$ 22	\$ 22	\$ 22

Source: Author's construct

market since 1996, when the towing-rate was set at \$105. There was no evidence that commercial property owners have reported an insufficient number of towing companies. New relocators were able to secure contracts. The 2000 annual report data indicated that the licensed companies had 28,383 active contracts averaging 3.8 tows per contract.

A formal hearing with interested parties generated the recommendation of an increase as requested and a final order was issued. Testimony given held up under cross-examination and rebuttal and can be used as a model for future rate cases. The decision in the case relied on the research. Methodology was developed, tested and approved by hearing. Data analysis techniques were tested and proven. The analysis is in the docket records of ILCC case *RTV-A-36*. The commission makes policy by deciding specific cases like this one, so

the importance of results cannot be overlooked. Subjective reasoning must withstand scrutiny in the courtroom. Subjective philosophy of staff can become the doctrine of the state.

### **Conclusion/Recommendations**

Policy making at the ILCC was clarified and simplified through involvement of professional staff in collecting and analyzing data and meeting with the regulated companies. Participation in the rate setting process by the professional staff helped the Commissioners understand the situation of relocators, since the case was technical and required expertise. However, the time involved in data collection and analysis would make it difficult to participate in rate setting on a regular basis unless the information is gathered routinely. Electronic submission and acceptance of the companies' annual reports only when

certain requirements are met would ensure data quality without consuming staff time. If financial and operational information were available when a policy issue is presented, this case could easily be used as a model, recognizing that different companies may be involved.

Knowledge of the factors that impact rate setting is also essential to modifying reporting requirements. The problem of unclaimed vehicles should be investigated and collecting balance sheet information on an on-going basis—in addition to annual report information—would be useful. Definition of record-keeping requirements and development of financial reporting standards for the industry benefit the regulator and the firms that are regulated. A defined cost allocation method would make financial information more comparable across companies and more consistent across years for each company.

When processes are unknown or unclear, the public often assumes something unfair is happening. Part of

the effort described by Rivlin<sup>19</sup> to close the gap between the public and the experts is to simplify and demystify the policy process. Without information, decisions are difficult to understand even for the parties involved in a case. This case study demonstrates that simplification and clarification builds needed understanding.

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<sup>19</sup> Alice Rivlin, *Reviving the American Dream*. (Washington, D.C.: The Brookings Institution, 1992).